

Announcement # 24-40

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Freddie Mac Bulletin 2023-22: Income Updates

In Bulletin 2023-22, Freddie Mac announced clarifications and provided additional specificity to employment income history, earnings types, and income calculation requirements for borrowers with employed income. Freddie Mac also reminds clients of the importance and requirement of including a written income analysis in the mortgage file. Pennymac is aligning with these updates.

Written Income Analysis

A written analysis of the income and the amount of income must be included in the mortgage file. The underwriter's written analysis should include, but is not limited to the following:

- The calculation used to determine the qualifying income, unless it can be clearly derived from documentation in the mortgage file such as predetermined income payment amounts, annual salary, SSI, etc.; and
- The rationale for determining the source and the amount of the income is stable, including rationale applicable to the stability, history, calculation of, and continuance of the income.

Employment History Requirements

The 12-month minimum employment history requirement for fluctuating hourly earnings has been expanded to permit prior salaried employment in a similar industry that had an income level consistent with the current income level based on the income trend analysis.

Employed Income Calculation Requirements

General income calculation requirements have been updated, including pay frequency, documented income breakdowns to include the purpose and verification method, and income calculations and trend analysis for fluctuating employment earnings.

Fluctuating hourly employment earnings are considered to be earnings that are based on a pre-determined and agreed-upon hourly rate of pay. The number of hours worked are not predetermined and may fluctuate each pay period. Increasing fluctuating employment earnings may require additional income trend analysis and documentation depending on degree of fluctuation:

- Degree of fluctuation $\leq 10\%$: No additional analysis or documentation is required.
- Degree of fluctuation $> 10\% - \leq 30\%$: No additional analysis or documentation is required *when the increase is supported by the documented income breakdown and/or verification of pay raise.*
- Degree of fluctuation $> 30\%$: Additional analysis is required and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used for qualification purposes.

Guidance addressing verification of pay raises and using pay increases in the calculation of qualifying income is now included in the Seller Guide. Additionally, calculation methods underwriters should utilize to ensure the qualifying income derived from a recent pay increase is consistent and documented are outlined as follows:

- Option 1: Average the most recent year and YTD income over the applicable number of months of required history and documentation, as described in Section 5303.4(d).

- Option 2: Apply the current pay rate to the average number of hours worked during the prior year and the current year, provided the hours worked during the prior year and the current year are consistent or increasing, and documented.

Note: The above requirements and delivery dates also apply to AUS Jumbo where LPA is the AUS utilized.

Please refer to Freddie Mac Seller Guide and [Stable Monthly Income FAQ](#) for complete requirements.

Please contact your Sales Representative with any questions.